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MONITOR

FEBRUARY 1989

MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

VOL. 2, NO. 1



Thomas Wojtkowski, General Counsel to the House of Representatives, Anne Wojtkowski, Mayor of Pittsfield and Dominic Sacco, Program Director for Springside Manor (l to r) at the opening of Hillcrest Educational Center's new residential facility, Springside Manor, in Pittsfield.

With the purchase and renovations financed through a HEFA capital asset program loan, Springside's capacity will increase by almost fifty percent. This will allow it to better meet the extensive demand for the services it provides to individuals with mild to severe mental retardation.

New Capital Asset Programs

HEFA has introduced three new types of dedicated capital asset programs serving its institutions. One is based on appropriation risk and is for the sole benefit of community human service providers with residential programs. Loans from this capital asset program carry fixed interest rates and permit borrowers to retain title to property financed through HEFA.

A second program was created to finance the major capital equipment needs of certain teaching hospitals.

The third is a dedicated pooled financing program open to all institutions. Participants in this program are able to choose between fixed and variable interest rates on their loans.

If you have any questions regarding capital asset program financing, please contact either Leslie Mulford or Cathy Thorn. ■

Community Hospital Improves Services

In 1983, North Adams Regional Hospital began an ongoing, long term planning effort to examine evolving community health care needs and the best ways in which the hospital can meet them. One result of this process was an affiliation agreement with the Department of Mental Health to treat area patients needing involuntary psychiatric treatment in a caring, community

setting. This requires the conversion of 20 medical/surgical beds into a new, 20-bed inpatient psychiatric unit. HEFA's recent \$12 million bond issue will allow the hospital to renovate its facilities to accomplish this. Other uses of bond proceeds include the renovation of administrative and patient care areas and the installation of a hospital-wide information system. ■

WE'RE ON THE MOVE

During the first week in February, HEFA's office will be moving to our new location at:

99 Summer Street, Suite 1000
Boston, MA 02110

Our new numbers will be:

Telephone: (617) 737-8377
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HEFA MONITOR

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To be put on the mailing list, please contact Cynthia Patterson.

18 Financings in Six Months

The last six months of 1988 marked the second busiest six months in HEFA's history. 14 bond issues totalling over \$349 million were brought to market -- more than was closed in the entire previous twelve months. Four capital asset program loans totaling over \$8 million were also closed during the period. All together, these financings benefitted 16 institutions: eight hospitals, six colleges, and two cultural organizations. The chart below summarizes HEFA's activity. ▼

INDIVIDUAL FINANCINGS

Institution	Location	Series	Amount	Sale Date	Term	Interest Rate
Jordan Hospital	Plymouth	A	\$ 11,270,000	11/23	40 years, fixed	7.85%
Lahey Clinic	Burlington	A	100,710,000	12/19	30 years, fixed	6%—7 $\frac{5}{8}$ %
Mount Ida College	Newton	A	9,200,000	07/20	30 years, variable	5.5%*
New England Medical Center	Boston	E	26,135,000	08/25	24 years, fixed	5.6%—7 $\frac{5}{8}$ %
Newbury College	Brookline	A	9,800,000	11/17	30 years, variable	5.9%*
North Adams Regional Hospital	North Adams	A	12,000,000	12/23	30 years, fixed	9 $\frac{5}{8}$ %
North Shore Community Arts Foundation	Beverly	A	2,700,000	12/01	22 years, variable	6 $\frac{7}{8}$ %*
Northeastern University	Boston	B	20,000,000	12/13	22 years, fixed	6.25%—7.6%
Norwood Hospital	Norwood	E	42,785,000	09/08	24 years, fixed	5.8%—8%
Spaulding Rehabilitation Hospital	Boston	A	7,500,000	11/17	33 years, fixed	6.1%—7 $\frac{5}{8}$ %
Tufts University	Medford	C	66,445,000	11/04	30 years, fixed	5.6%—7.4%
Tufts University	Medford	D	9,895,000	12/06	25 years, fixed	7.7%—7.75%
Worcester Polytechnic Institute	Worcester	C	7,985,000	10/26	12 years, fixed	5.7%—7.1%
Worcester Polytechnic Institute	Worcester	D	23,000,000	12/08	30 years, variable	6.75%*
			\$349,425,000			

CAPITAL ASSET PROGRAM FINANCINGS

Institution	Location	Pool	Amount	Date Closed	Term	Interest Rate
Boston Ballet	Boston	D	3,000,000	12/15	5 years	7%*
Mercy Hospital	Springfield	D	1,997,786	11/14	10 years	7%*
New England Baptist Hospital	Boston	D	1,281,700	10/21	7 years	7%*
Smith College	Northampton	E	2,500,000	08/16	5 years	7.15%*
			\$8,779,486			

TOTAL FINANCINGS: **\$358,204,486**

* Variable rate financing. rate cited is at closing date.

HEFA Staff Update

There are several new faces at HEFA. **Cathy Thorn** has joined us as Capital Asset Program Administrator and will work with Leslie Mulford on our pooled financing programs. **Janet Turow** has become Office Manager. **Melissa Pullin** has joined the Authority as a Legal Assistant, reporting to HEFA's General Counsel. **Dennis Hannay** is the new Capital Asset Program Accountant.

It was previously announced that HEFA's Executive Director, Patricia A. Doyle, resigned at the end of 1988. In her three years with the Authority, Ms. Doyle accomplished a great deal by extending HEFA's financial umbrella to many new borrowers. Vice Chairman Robert R. Fanning is chairing a search committee to recruit a new Executive Director. In the interim, HEFA's General Counsel, Martin L. Rainford, is serving as Deputy Director, fulfilling all of the responsibilities of the Executive Director. ■

HEFA FINANCINGS — JULY THROUGH DECEMBER, 1988

Lahey Clinic

Two major projects will be accomplished through a large financing for **Lahey Clinic**. This insured 30-year fixed rate issue consists of serial and term bonds with interest rates ranging from 6% to 7.625%.

For some time Lahey Clinic has experienced very high occupancy levels, to the extent that it recently received approval to expand its capacity by 60 medical/surgical beds, four ICU beds, and four operating rooms. In addition, approval was also granted for the Clinic to add 40 physician's offices. With financing provided by HEFA, this important growth will be accomplished through construction of an addition to Lahey's existing facility. The second component of the HEFA financing will enable the Clinic to repay debt that had underwritten the acquisition of its present campus and a storage facility. ■

Unique Program Funds Hospital Care

Seven major teaching hospitals will benefit from HEFA's new \$145.5 million funding program to finance purchases of diagnostic and treatment equipment. By pooling the hospitals' borrowing needs, HEFA makes funds available at low, short-term tax-exempt rates (currently about 6.25%) and lowers issuance costs for the participants.

"This creative financing package again underscores the importance of HEFA's role in the financing of health care facilities in the Commonwealth," said Senator Edward L. Burke, Chair, Health Care Committee.

The funding package was developed for HEFA by Goldman Sachs & Company. It uses a new financial instrument known as "Periodic Auction Reset Securities" (PARS)sm which has never before been used in Massachusetts. It is designed to give participants the advantage of lower short-term tax exempt rates through a long-term debt structure.

"These hospitals' growth and success depend on their ability to raise funds inexpensively and efficiently. HEFA's funds will allow Massachusetts teaching hospitals to continue to provide world class patient care at the lowest possible cost," explained Martin Rainford, HEFA's Deputy Director.

The success of the initial PARSsm program will benefit other not-for-profit institutions. HEFA will soon set up at least three more funding pools for colleges, hospitals, and human service providers. ■

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(617) 737-8377

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Kara J. Sumner

Capital Asset Program:
Leslie A. Mulford
Cathy A. Thorn

Public Affairs:
Deborah R. Boyce

Legal:
Martin L. Rainford

R E C E N T F I N A N C I N G S

Newbury College Consolidation

Newbury College recently made the strategic decision to consolidate its two campuses - Back Bay/Boston and Brookline - into its Brookline campus.

Not only will Newbury be able to increase its endowment through the sale of its Boston properties, but proceeds from the HEFA bond issue will help the college to achieve its other long-term goal, the expansion and improvement of its Brookline campus.

The interest rate on this 30-year variable rate issue varies weekly; at the closing date, the rate was 5.9%.



Norwood Hospital Financing

HEFA has provided financing to Norwood Hospital for a variety of projects. This 24-year fixed rate issue consists of serial and term bonds with interest rates ranging from 5.8% to 8%.

A service facility will be built to house mobile MRI equipment. The hospital's ICU and clinical laboratories will be renovated, asbestos insulation will be removed, and the fire alarm and data processing systems will be upgraded. In addition, the hospital will be able to refinance earlier HEFA debt which had been issued at a time of higher interest rates.



Theater Production Facility Created

The North Shore Community Arts Foundation located in Beverly, operates the North Shore Music Theatre and the Montserrat College of Art. A \$2.7 million HEFA bond issue will enable the North Shore Music Theatre to improve its facilities so that it can operate year-round. Projects include the expansion of the lobby, renovation of the interior, and construction of a new production building.

Ballet Studios Built

Through a \$3 million HEFA capital asset program loan, the Boston Ballet, an important regional cultural resource, will be able to greatly expand its activities. Two stories will be added to the current three story building for which the Ballet has a long-term lease. Three new dance studios will allow for more Boston Ballet School classes and uninterrupted rehearsal periods for the Boston Ballet Company. The Ballet also plans to provide studio space for other dance companies, many of which have had difficulty finding regular studio space. Finally, the renovation will provide much needed additional administrative office space.



FHA Financing Improves Cash Flow

In a recent financing, HEFA provided \$11,270,000 to Jordan Hospital in Plymouth. The proceeds of this FHA-insured issue will allow the hospital to continue to keep up with medical technology through the renovation of its surgical and maternity units and the purchase of state-of-the-art medical equipment. In addition, the hospital will refinance, and thus extend the maturity of, its HEFA capital asset program loans.



College Merger Financed

The recent merger of Mount Ida College with Chamberlayne Junior College of Boston has been an exciting challenge for these two institutions. In order to accommodate students from both colleges on Mount Ida's Newton campus, an extensive building program has begun. HEFA is proud to play a part in this growth through a \$9.2 million bond issue for construction of a classroom building, a dormitory complex for 275 students, and a new library. "This structure proposed by HEFA offers extreme flexibility," said Bryan Carlson, President of Mount Ida, "which allows us to keep our options open as Mount Ida continues to grow."

Tufts University

In an effort to lower overall costs of capital, to match debt payment to project lives, and to finance portions of its ongoing capital program, **Tufts University** approached HEFA for a comprehensive restructuring of most of the University's outstanding debt. After evaluating the University's preference for a mix of fixed and floating rate debt as well as its desire to maximize future refunding opportunities given the constraints of tax law, the HEFA financing team arrived at an optimum solution which involved three separate bond issues.

The first issue, Series C, \$66,445,000, was brought to market on a "fast track" basis to take advantage of low pre-election long-term rates. The second issue, Series D, \$9,895,000, was a fixed rate advance refunding which was less market sensitive. The third issue, estimated at \$35 million and scheduled for a February closing, will refund various outstanding obligations on a floating rate basis.

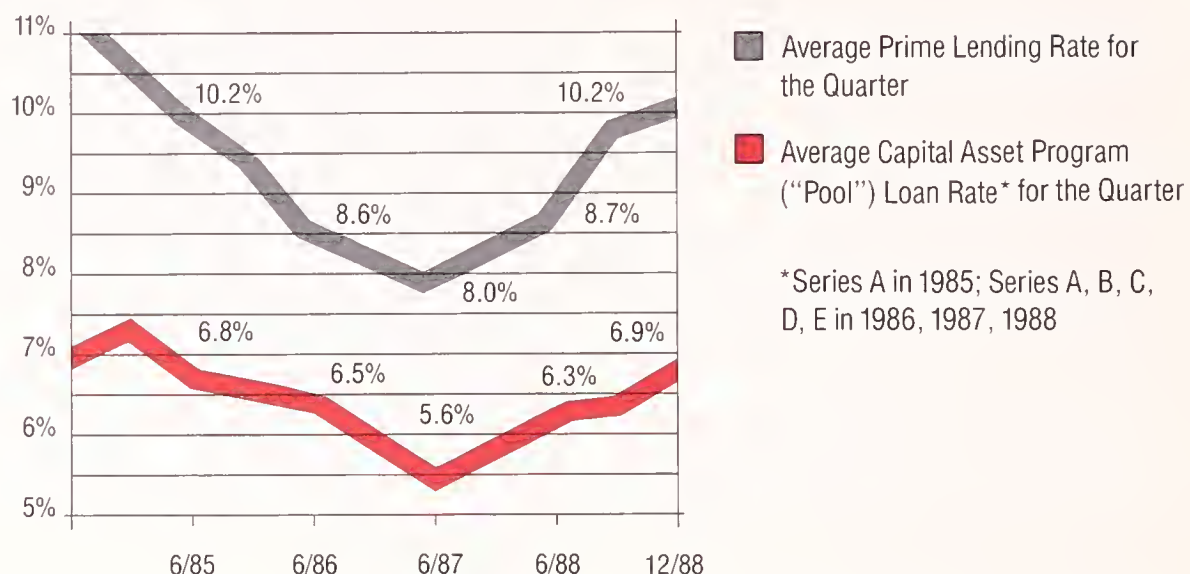
In all, the three issues advance refunded approximately \$28 million in HEFA fixed-rate debt, refunded \$12.5 million in bank loans and approximately \$19.5 million in HEFA pool loans used as interim project financing, and provided over \$42 million in new funds for University projects. The new projects include three new structures on the Medford-Somerville campus, extensive renovations, conversions of space for classrooms, offices, and research laboratories and the purchase of fire protection equipment. ■

Massachusetts Health and Educational
Facilities Authority

99 Summer Street, Suite 1000

Boston, MA 02110

Capital Asset Program Loan Rates



While HEFA was able to lower the loan rate for its first capital asset program (Series A) on January 1, rates for other HEFA capital asset program loans rose slightly, reflecting the upward pressure on interest rates in the capital markets during the previous quarter.

Capital asset program loans carry variable interest rates that are generally recalculated quarterly. The primary component of the loan rate is the historical and projected variable rate of interest paid on the tax-exempt bonds issued to make the loans. In addition, a small portion of the loan rate consists of the administrative expenses incurred as part of the capital asset program, including bond insurance, liquidity and other fees. ■

Capital Asset Program	Through 12/31/88	Effective 1/1/89
Series A	6.65%	6.40%
Series B & C	6.35%	6.60%
Series D	7.0%	7.55%
Series E	7.55%	7.95%

MONITOR

SPRING 1989

MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

VOL. 2, NO. 2

Edward Murphy Named Executive Director

On March 10, the members of the Authority unanimously named Edward M. Murphy, the Commissioner of Mental Health, as HEFA's new Executive Director. The appointment has been widely heralded as a coup for HEFA, as Mr. Murphy is highly regarded by the Administration, legislative leaders, and the health and human service communities in the Commonwealth.

In announcing the appointment, Gregory P. Plunkett, Chairman of HEFA, said, "I speak for the entire Board when I say how delighted we are by this appointment. After a nationwide search, we are confident that we have chosen a stellar individual whose expertise and commitment to public service are highly respected. With Ned Murphy's capable leadership we look forward to further expanding our services to our client institutions and to the Commonwealth."

Murphy assumed his position on May 1, bringing to it extensive experience in state government. Prior to serving as mental health commissioner, he was commissioner of the Department of Youth Services for six years. It is expected that he will increase HEFA's involvement with policymakers and other agencies. Said Murphy, "HEFA's financing capability is an integral part of Massachusetts' policy toward health, educational, cultural and human service institutions. Governor Dukakis and the



Edward M. Murphy

legislature are leading the Commonwealth into a new era in health care for the 1990's and beyond. I am excited by the opportunity as Executive Director of HEFA to support these important efforts. HEFA's resources can expand access to national capital markets for all of the Commonwealth's non-profit institutions. I look forward to the challenge."

Acclaim for Ned Murphy and his move to HEFA has been widespread among leaders in government and the health and education sectors. Governor Michael S. Dukakis praised his "competent and compassionate service in the fields of youth services and mental health" and called him "one of the finest public servants in the state." The Governor added, "I am pleased that he will continue to contribute his skills to the Commonwealth as the new Executive Director of HEFA."

Secretary of Human Services

Continued on Page Three

Renowned Child Welfare Agency Expands Services

One of the oldest child welfare agencies in Massachusetts, The New England Home for Little Wanderers, is expanding its services to needy children through the purchase and renovation of two new residential facilities in Waltham and Norwood and substantial renovation of its Knight Children's Center in Jamaica Plain.

Founded in 1865, The New England Home for Little Wanderers provides residential, day treatment, and community based services to children and families in need in the Greater Boston area and eastern Massachusetts. In 1988 alone, The Home served well over 570 clients through facilities in Jamaica Plain, Walpole, Watertown, Dorchester, Waltham and Norwood.

The new Waltham House will serve as a residential facility for 12 to 14 emotionally disturbed, learning disabled young people between the ages of 11 and 17. The Norwood Cluster will provide independent living skills to ten teenage residents, as well as outreach programs to clients

Continued on Page Two

WE'VE MOVED

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83 Million in Capital Asset Loans

Seven loans were closed through HEFA's capital asset programs during the quarter ended March 31. One of the loans was made possible through the recycling of principal repayments on the Series D "pool." It is expected that HEFA's ability to make additional loans through this extremely efficient use of capital will increase in the coming months. The other six loans were generated from two of HEFA's latest capital asset programs, Series F and Series G-1. ■

New England Home for Little Wanderers

Continued from Page One

living at home or in foster homes, and the monitoring of clients no longer in need of direct services. The Knight Children's Center in Jamaica Plain provides residential treatment for 27 children, special education for 50 children, a mental health clinic, and is also a site for various other community based programs. Part of the work at the Knight Center will include the construction of a much-needed gymnasium.

In order to enable The Home to accomplish this needed expansion, HEFA worked with them to put together an innovative, low-cost financing package. The resulting \$3,860,000 25-year bond issue was sold on March 16 and was underwritten by the Bank of Boston, which is also providing letter of credit support for the issue. This variable rate financing was initially sold as 5-year "put" bonds at a 7.25% interest

rate. At the end of the initial 5-year period, the bonds may be remarketed in another variable rate mode (that is, with the interest rate changing weekly, monthly, quarterly, semiannually, annually or multiannually) or may be converted to a fixed interest rate. This type of financing was chosen in order to give The Home the security of fixing their interest costs over the near term, while also having the flexibility to adjust to future changes in the capital markets.

The Home's Executive Director, Clifford W. Falby, commented, "We are very pleased by the availability of the financing and the assistance of the Authority throughout the undertaking. The low-cost funds will enable The Home to expand its work with children in need throughout eastern Massachusetts." ■

HEFA Financings: January through March, 1989

INDIVIDUAL BOND ISSUES

Institution	Location	Series	Amount	Sale Date	Term	Interest Rate
New England Home for Little Wanderers	Boston	A	\$3,860,000	3/16	25 years, variable	7.25%*
St. Joseph's Hospital	Lowell	C	26,900,000	3/10	30 years, fixed	9.50%
Salem Hospital	Salem	B	8,000,000	3/1	25 years, fixed	8.15%
Tufts University	Medford	E	23,500,000	1/31	15 years, variable	6.25 -6.55%*
			\$62,260,000			

CAPITAL ASSET PROGRAM BOND ISSUES

Series	Amount	Sale Date	Term	Initial Loan Rate
Capital Asset Program, Series F-1	\$75,000,000	1/13	30 years, variable	6.25%*
Capital Asset Program, Series F-2	70,500,000	1/13	30 years, variable	6.30%*
Capital Asset Program, Series G-1	24,200,000	3/08	30 years, variable	7.45%*
	\$169,700,000			

CAPITAL ASSET PROGRAM LOANS

Institution	Location	Series	Amount	Date Closed	Term	Interest Rate
Beth Israel Hospital	Boston	F-2	\$17,100,000	3/10	15 years	6.30%*
Beverly Hospital	Beverly	G-1	3,514,075	3/15	10 years	7.45%*
Boston College	Chestnut Hill	D	6,000,000	3/2	10 years	7.55%*
Children's Medical Center	Boston	F-2	38,000,000	3/31	30 years	6.30%*
Lahey Clinic Medical Center	Burlington	F-1	8,000,000	3/21	10 years	6.25%*
Mercy Hospital	Springfield	G-1	3,104,284	3/16	20 years	7.45%*
New England Deaconess Hospital	Boston	F-1	7,357,663	3/7	16 years	6.25%*
			\$83,076,022			

*Variable rate financing; rate cited is at closing date.

NEED MONEY?

Are you looking for financing for equipment, renovations, or construction? HEFA is pleased to report that it has ample funds available through its capital asset programs. Please call either Leslie Mulford or Cathy Thorn at 617-737-8377 to learn more about the advantages of pooled financings.

Murphy

Continued from Page One

Philip W. Johnston noted that Murphy's top-notch management skills and deep commitment to people in need have made him one of state government's great stars. "We will sorely miss him as Commissioner, but look forward to continuing to work with him in his new role at HEFA," said Johnston.

Stephen J. Hegarty, President of the Massachusetts Hospital Association, also had high praise for Ned Murphy's track record in state government. Commented Hegarty, "He is extremely well-respected in all quarters, an excellent choice. This appointment serves to further strengthen our close working relationship with HEFA in its service to hospitals in the Commonwealth."

This is an exciting and challenging time for HEFA. The first nine months of the fiscal year was one of the most active periods in HEFA's 20-year history, with more than \$530 million in projects financed. Through Ned Murphy's skillful leadership and broad experience, the Authority will further increase its support for the Commonwealth's essential not-for-profit organizations. ■

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R E C E N T F I N A N C I N G S

Pooled Financings Program Benefits Six Non-Profit Groups

Six Massachusetts hospitals are benefitting from a new funding program provided by HEFA's Series G-1 Capital Asset Program. The participating institutions are: Beverly Hospital, Beverly; Franklin Medical Center, Greenfield; McLean Hospital, Belmont; Mercy Hospital, Springfield; Waltham-Weston Hospital, Waltham; and Worcester Memorial Hospital, Worcester.

The loan proceeds will finance a variety of needed projects. Some of these include the renovation of space to accommodate additional rehabilitation beds at Mercy Hospital; the construction of new space at Worcester Memorial Hospital to expand the neonatal intensive care unit and to house a variety of administrative and patient care services; the purchase of equipment and refinancing of taxable debt for Franklin Medical Center; renovations, asbestos removal, and the purchase of a variety of equipment at Beverly Hospital; the purchase of a new integrated information system at McLean Hospital; and the purchase of a telephone system and refinancing of a computer purchase at Waltham-Weston Hospital.

North Shore Children's Hospital Acquired

North Shore Children's Hospital recently became the second major primary care hospital to affiliate with Charter Health Services Corporation (Charter). The pediatric specialty hospital is now a sister institution of Salem Hospital, and they jointly serve the health care needs of the North Shore community. Financing for this important step has been provided by HEFA.

In explaining the purpose of the merger, Charter President Michael J. Geaney, Jr. said, "There is a great need for acute pediatric care in our service area. The acquisition of North Shore Children's Hospital by Charter was essential to assure the uninterrupted continuation of this vital care."

Noted Geaney, "An important planning consideration in acquiring NSCH was that it be cost effective.

HEFA's proposal enabled the hospital to achieve that goal through a tax-exempt bond issue that significantly lowers our borrowing costs."

On March 1, an \$8 million, 25-year tax-exempt bond issue was sold with a fixed rate of 8.15%, enabling the borrowers to "lock in" a very low interest rate during a period of rising rates.

St. Joseph's Hospital

A new bond issue provided by HEFA will allow St. Joseph's Hospital of Lowell to accomplish a significant three-part capital financing program. The financing will provide new and renovated patient care and support service areas and equipment and will refinance certain outstanding indebtedness.

HEFA worked closely with St. Joseph's in order to achieve the most inexpensive financing possible. On March 10, the hospital's \$26,900,000 bond issue was purchased by a group of eleven financial institutions. The interest rate on the 30-year debt is fixed at 9.25%, allowing St. Joseph's to secure an attractive rate during a period of uncertainty in the capital markets.

On the day the bond issue was sold, hospital President James H. Frame said, "We are celebrating, and have already shared the good news with our employees, directors and physicians." Frame remarked that the bond issue "came with perfect timing," because the hospital had just completed demolition of its old, unused power plant to make way for new construction.

Hahnemann Hospital

Hahnemann Hospital, located in the Brighton section of Boston, will soon be the second not-for-profit institution to benefit from HEFA's innovative lease financing program, which allows borrowers to take advantage of lower interest rates through a tax-exempt sale-leaseback arrangement. It is expected that Hahnemann's lease, its first financing with HEFA, will close in early May and will be used to finance a CAT scanner and other major equipment.

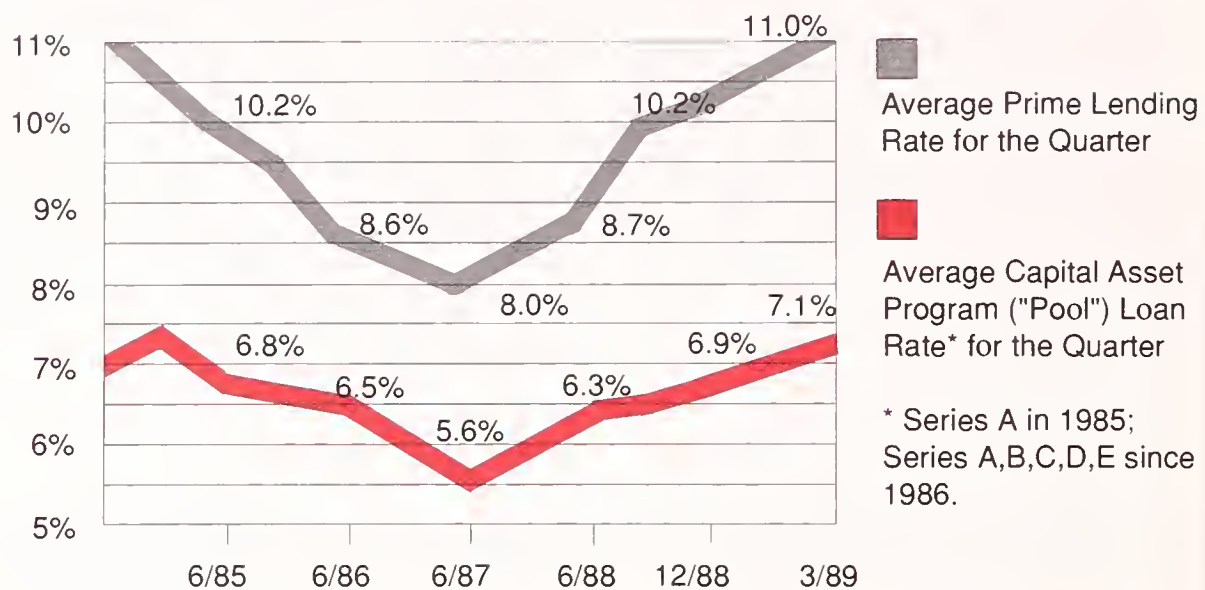
Financing For Human Service Providers

The benefits provided to the citizens of Massachusetts by our private, not-for-profit community human service providers cannot be underestimated. These are the schools and programs which assist the physically and emotionally challenged and mentally handicapped in our communities achieve their highest potential in a caring and supportive environment. In May, several of these providers will be assisted through a new tax-exempt pooled financing program provided by HEFA.

This new financing will mark two important firsts for HEFA. It will be HEFA's first capital asset program tailored to the specific needs of Massachusetts' important community human service providers. One of the unique features of this program is that borrowers may pledge state contract revenues and mortgage their residential property as security for their loans. This eliminates the need for participants to provide more costly types of collateral and so conserves their scarce resources.

This will also be HEFA's first pooled financing program with a fixed loan rate, giving borrowers the security of knowing that their interest costs will be fixed at a low tax-exempt rate throughout the term of their loans. HEFA will provide loans of up to 20 years, and by pooling the institutions' borrowing needs will lower issuance expenses for the participants. Lowering the borrowing costs for these vital not-for-profit community human service providers will lower the cost of their services to citizens of the Commonwealth. ■

Capital Asset Program Loan Rates



During the first quarter of 1989, the continuing upward pressure on interest rates in the capital markets required that the loan rate for all capital asset programs be raised in April.

The interest rates for most of HEFA's variable rate capital asset program loans are generally recalculated quarterly. The one exception is Series F, whose loan rate is reset every 35 days. The primary component of the loan rate is the historical and projected variable rate of interest paid on the tax-exempt bonds issued to make the loans. In addition, a small portion of the loan rate consists of the administrative expenses incurred as part of the capital asset program, including bond insurance, liquidity and other fees. ■

Capital Asset Program	Previous Rate	New Rate	Effective Date
Series A	6.40%	8.00%	4/1/89
Series B & C	6.60%	8.55%	4/3/89
Series D	7.55%	9.35%	4/3/89
Series E	7.95%	9.95%	4/3/89
Series F-1	6.90%*	7.35%*	4/4/89
Series F-2	7.00%*	7.05%*	4/11/89
Series G-1	7.45%**	7.65%**	4/3/89

* Certain fees billed directly to the borrower raise the effective rate by approximately 0.40%.

** Certain fees billed directly to the borrower during the first two years of the program and not incorporated in the loan rate raise the effective rate to approximately 7.85% through 4/2/89 and 8.05% on 4/3/89. In later years, it is expected that separately billed fees will raise the effective rate by about 0.90%.

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VOL. 2, NO. 3

HEFA Doubles Volume in One Year

HEFA issued over \$691 million in bonds during fiscal year 1989 for use by not-for-profit organizations in Massachusetts. This is more than twice last year's volume, both in terms of total funds provided and number of bond issues. Furthermore, this marks HEFA's most active year since the rush to market that occurred just prior to passage of the Tax Reform Act of 1986.

Three capital asset programs specifically tailored to the needs of particular groups were issued in 1989 to finance a variety of projects, including the purchase of capital equipment and the refinancing of taxable mortgages. In addition, 23 individual financings ranging in size from \$347,000 to \$100.7 million were completed using a variety of financing techniques such as public offering, private sale, "dutch auction" procedures for the resetting of variable rates, FHA and other types of bond insurance, and letters of credit. This year HEFA also introduced a new capital equipment leasing program, enabling institutions to take advantage of lower interest rates through a tax-exempt lease-rental agreement.

Through HEFA, 41 institutions obtained tax-exempt financings at the lowest possible rates for projects as diverse as purchasing equipment, refinancing taxable mortgages, renovating space for research laboratories, and building a theater production facility. The tables on pages 2 and 4 summarize the year's activity. ■



Gerald D. Cohen

HEFA to Finance Independent Nursing Homes

The Massachusetts Legislature recently authorized HEFA to provide access to capital funding to independent nursing homes. Because of HEFA's experience in the field of tax-exempt financing, the legislature has empowered HEFA to provide this inexpensive method of financing to non-profit, free-standing nursing homes. This is the first time HEFA has been able to make low-cost funds available to these institutions.

The legislation requires a nursing home to be non-profit and licensed by the Department of Public Health, and the facilities financed must be located in Massachusetts. For more information call HEFA Executive Director Edward M. Murphy at (617) 737-8377. ■

Bernard Grossman Retires, Replaced by Gerald Cohen

Bernard D. Grossman, a valued member of the Authority for over 12 years, recently resigned. During his term, Mr. Grossman brought to HEFA an impressive background in both finance and the health care industry. Mr. Grossman was an extremely active member of the Authority who was always generous with his time. His invaluable advice and guidance helped to lead HEFA through a period of growth and expansion of services, and his presence will be missed. The Authority extends to him its sincere gratitude for his many years of dedicated service.

To replace Mr. Grossman, Governor Dukakis recently appointed Gerald D. Cohen. Mr. Cohen is principal of CGI Companies, a real estate development and management company specializing in shopping centers, with properties located in New England, Pennsylvania, and North Carolina. He is also a member of the Board of Overseers of The Children's Hospital in Boston.

Other HEFA members —
Continued on page 3

1989 HEFA CLIENTS

Forty-one Massachusetts institutions benefited from HEFA financings in fiscal year 1989. They include 25 hospitals, eight colleges and universities, five community human service providers, two cultural institutions and one nursing home.

HEFA and MAMH Sponsor Workshop

In June, 35 community human service providers participated in a workshop sponsored jointly by HEFA and the Massachusetts Association for Mental Health (MAMH). Held in Framingham, the purpose of the meeting was to provide an overview of capital asset financing options available through HEFA. The morning began with an introduction by MAMH Executive

Director Bernard J. Carey, followed by a panel discussion led by Edward M. Murphy, HEFA's Executive Director. The panelists represented a wide range of expertise and perspectives and included Robert J. Griffin, Esq. and Barry L. Mintzer, Esq., counsel for MAMH and individual providers; Donald F. Winter, Esq. of Palmer & Dodge, HEFA's bond counsel; Bentley Kaplan, accountant for The Key Program; Eric Masi, Executive Director of Wayside Community Programs; and Sheila A. O'Loughlin, Vice President of Shearson Lehman

Hutton, Inc., underwriters for HEFA's capital asset program designed for community human service providers. The dialogue focused not only on the options open to community human service providers, but also covered the general processes involved in obtaining tax-exempt HEFA financing. There was also an informal information session where providers had the opportunity to ask questions on a one-to-one basis. If you would like to receive information on any future workshops, please call Leslie Mulford at (617) 737-8377. ■

HEFA Financings: July 1988 through June 1989

INDIVIDUAL BOND ISSUES

Institution	Location	Series	Amount	Sale Date	Term	Interest Rate
Berkshire Health Systems	Pittsfield	A	\$ 45,000,000	04/13	30 years, fixed	6.8% - 7.6%
Cardinal Cushing Hospital	Brockton	A	9,400,000	05/17	29 years, fixed	8.5% - 8.875%
Jordan Hospital	Plymouth	A	11,270,000	11/23	40 years, fixed	7.85%
Lahey Clinic	Burlington	A	100,710,000	12/19	30 years, fixed	6% - 7.625%
Massachusetts General Hospital	Boston	E	15,000,000	07/20**	21 years, fixed	5.1% - 7.75%
Mount Ida College	Newton	A	9,200,000	07/20	30 years, variable	5.50%*
New England Home for Little Wanderers	Boston	A	3,860,000	03/16	25 years, variable	7.25%*
New England Medical Center	Boston	E	26,135,000	08/25	24 years, fixed	5.6% - 7.875%
Newbury College	Brookline	A	9,800,000	11/17	30 years, variable	5.90%*
North Adams Regional Hospital	North Adams	A	12,000,000	12/23	30 years, fixed	9.63%
North Shore Community Arts Foundation	Beverly	A	2,700,000	12/01	22 years, variable	6.88%*
Northeastern University	Boston	B	20,000,000	12/13	22 years, fixed	6.25% - 7.6%
Norwood Hospital	Norwood	E	42,785,000	09/08	24 years, fixed	5.8% - 8%
Salem Hospital	Salem	B	8,000,000	03/01	25 years, fixed	8.15%
Spaulding Rehabilitation Hospital	Boston	A	7,500,000	11/17	33 years, fixed	6.1% - 7.625%
St. Joseph's Hospital	Lowell	C	26,900,000	03/10	30 years, fixed	9.5%
Summerfield Nursing Homes	South Hadley	A	3,600,000	05/01	25 years, fixed	9.5%
Tufts University	Medford	C	66,445,000	11/04	30 years, fixed	5.6% - 7.4%
Tufts University	Medford	D	9,895,000	12/06	25 years, fixed	7.7% - 7.75%
Tufts University	Medford	E	23,500,000	01/31	15 years, variable	6.25% - 6.55%
Wellesley College	Wellesley	D	30,000,000	06/26	30 years, variable	6.60%*
Worcester Polytechnic Institute	Worcester	C	7,985,000	10/26	12 years, fixed	5.7% - 7.1%
Worcester Polytechnic Institute	Worcester	D	23,000,000	12/08	30 years, variable	6.75%*
			\$ 514,685,000			

CAPITAL ASSET PROGRAM BOND ISSUES

Series	Amount	Sale Date	Term	Loan Rate
Capital Asset Program, Series F-1	\$ 75,000,000	01/13	30 years, variable	6.25%*
Capital Asset Program, Series F-2	70,500,000	01/13	30 years, variable	6.30%*
Capital Asset Program, Series G-1	24,200,000	03/08	30 years, variable	7.45%*
Capital Asset Program, Series H-1	5,095,000	05/12	20 years, fixed	8.04% - 8.6%#
Capital Asset Program, Series H-2	60,000	05/12	5 years, fixed	
		\$ 174,855,000		

EQUIPMENT LEASES

Institution	Location	Series	Amount	Date Closed	Term	Interest Rate
Cooley Dickinson Hospital	Northampton	1	\$ 1,164,444	11/22	5 years, fixed	7.84%
Cooley Dickinson Hospital	Northampton	2	346,781	02/01	7 years, fixed	8.39%
Hahnemann Hospital	Boston	1	359,000	05/02	5 years, fixed	8.64%
			\$ 1,870,225			

* Variable rate financing; rate cited is at closing date.

** Date closed

Combined rates for H-1 and H-2 borrowing

money to pay debt service within 13 months of its receipt, it probably may retain any arbitrage profit on the temporary investment of gifts. If not expended within 13 months, it may be accumulated and used for future debt service payments. Until it is used, however, arbitrage income from investment of the funds must be rebated to the federal government. Alternatively, the tagged money may be invested at a rate not to exceed the yield on the tax-exempt borrowing, or it may be invested in municipal bonds.

Is there a way to avoid tagged money? To the extent that an organization has control over the terms under which it receives gifts, it may be able to borrow the full cost of the project while simultaneously doing fundraising. Of course, this means that the institution must not raise money for the construction of the project, but may raise funds for other purposes. For example, it may design fundraising literature to seek funds for a variety of purposes that may include the project, but also include such other purposes as adding to endowment, creating a fund to pay for maintenance and operations (but not debt service) of the building, constructing other buildings, etc. This does not prevent using "naming opportunities" within the building. There is no reason not to name a room in the project for a generous donor who makes a gift for other than construction of the building.

This is obviously a complex issue in which individual needs and plans play an important role. Please call HEFA's Deputy Director, Martin Rainford, at (617) 737-8377 if you have any questions regarding the implications of fundraising on tax-exempt financing. ■

Bond Insurance Guidelines

Bond insurance increasingly is being considered by not-for-profit organizations as a means to gain access to the financial markets, lower borrowing costs, and improve credit ratings. With bond insurance, the insurer guarantees repayment of the bonds to the investor. In so doing, the insurer in effect lends the bond issue its AAA credit rating — the highest rating awarded to bond offerings. This in turn results in lowered interest costs for the borrower.

Listed below is some general information about areas that bond insurers typically review when evaluating an institution's application for insurance.

Colleges and Universities

- Security must be provided in the form of a general obligation of the university and/or a specific pledge of unrestricted revenues (such as tuition, dormitory revenues, student fees).
- Debt service reserve should be funded to the maximum annual debt service.
- Rates and charges covenant should provide for at least 1.00 times debt service coverage, with 1.25 times coverage required for dormitory revenues.
- Test for additional bonds depends upon the financial profile of university; for example, covenant may state that debt service cannot exceed 20% of unrestricted revenues.
- Sound financial operating history should be shown.
- Enrollment trends — historical and

projected — are significant factors.

- Fees and charges should be competitive with comparable institutions.
- Location — both in terms of convenience and attractiveness — is important.
- Required documents include the official statement; bond resolution/trust indenture; HEFA loan agreement, if applicable; past five years audited financial statements; current course catalog; strategic plan, if available; relevant public information materials.

Health Care Organizations

- In-depth study focusses on: board of trustees; cash position; computer capabilities; DRG implications; debt load; debt service coverage; expense controls; management; market share; medical staff; number of beds; operating performance; service area; utilization trends.
- Site visit is commonly requested to meet with management and board to review the project, discuss the overall direction of the facility and tour the service area.
- Legal documents should address security, additional debt, mergers, disposal of assets, insurance provisions, etc.
- Required documents include past five years audited financial statements, management letters from auditors, utilization and payor mix statistics; feasibility study, if applicable; and all supporting legal documents.

While this is not a detailed summary, it should provide insight into the general areas that bond insurers consider important. It should be noted that evaluation techniques may vary among insurers. Additional factors may be considered, and in some cases, an institution that does not conform precisely to the criteria may possess offsetting features that make it eligible. ■

QUESTIONS? Call (617) 737-8377

Financing Options:

Edward M. Murphy
Martin L. Rainford
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Patricia M. Moran

Accounting/Investment:

Steven W. Dansby
Kara J. Sumner

Capital Asset Program:

Leslie A. Mulford
Cathy A. Thorn

Public Affairs:

Deborah R. Boyce

Legal:

Martin L. Rainford

Fundraising and Tax-Exempt Financing

It is not unusual for a charitable organization to finance a capital project through a combination of fundraising and tax-exempt financing. This often maximizes the growth potential of an organization while minimizing its debt burden. When such a blend is used, however, a few tax law requirements should be considered early in the project's planning stages.

First, federal tax laws and regulations forbid the improper earning of an arbitrage profit, which includes the earnings from the investment of gifts designated for a project to the extent they exceed the yield on tax-exempt debt used to finance the project. Second, the combination of gifts and tax-exempt debt generally cannot exceed the cost of the project. Third, the law regarding the use of restricted gifts affects the way these funds may be used

to either pay for a project directly or to amortize debt incurred to pay for the project.

Funds given to an organization to pay for the cost of building a project are "tagged" or restricted by the donor for that purpose only. The necessary treatment of tagged money varies according to the stage of the construction period:

1) Tagged money (and the anticipated interest earnings thereon) on hand during the construction period, or reasonably expected to be received during construction, should be used to reduce the size of the borrowing. Tagged money may be invested to provide a yield higher than that paid on the tax-exempt debt. However, any arbitrage profit (earnings from tagged money over the yield on tax-exempt debt) must be rebated to the federal government.

2) Tagged money expected to be received after the construction period and tagged money received unexpectedly should be used to pay debt service in one of three ways:

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- The principal amortization of the bonds may be weighted heavily in the early years to soak up gift money as it is received; or
- One of the variable rate financing vehicles can be used to permit the institution to "call" or purchase bonds as gifts are received; or
- Often an ordinary serial amortization schedule will be sufficient to use gifts as they are received.

If the organization uses the tagged
Continued on page 5

Capital Asset Program: July 1988 through June 1989

CAPITAL ASSET PROGRAM LOANS

Institution	Location	Series	Amount	Date Closed	Term	Interest Rate
Beth Israel Hospital	Boston	F-2	\$ 17,100,000	03/10	15 years, variable	7.00%*
Beverly Hospital	Beverly	G-1	3,514,075	03/15	10 years, variable	7.45%*
Boston Ballet	Boston	D	3,000,000	12/15	5 years, variable	7.00%*
Boston College	Chestnut Hill	D	6,000,000	03/02	10 years, variable	7.55%*
Children's Medical Center	Boston	F-2	38,000,000	03/31	30 years, variable	7.00%*
Franklin Medical Center	Greenfield	G-1	5,000,000	04/25	10 years, variable	7.65%*
Hampden County Association for the Retarded	Springfield	H	462,741	05/01	20 years, fixed	8.60%
Lahey Clinic	Burlington	F-1	8,000,000	03/21	10 years, variable	6.90%*
McLean Hospital	Belmont	G-1	1,707,356	05/09	7 years, variable	7.65%*
Mercy Hospital	Springfield	D	1,997,786	11/14	10 years, variable	7.00%*
Mercy Hospital	Springfield	G-1	3,104,284	03/16	20 years, variable	7.45%*
New England Baptist Hospital	Boston	D	1,281,700	10/21	7 years, variable	7.00%*
New England Deaconess Hospital	Boston	F-1	7,357,633	03/07	16 years, variable	6.90%*
New England Deaconess Hospital	Boston	F-1	22,642,337	06/29	16 years, variable	6.35%*
New England Medical Center	Boston	F-2	15,400,000	04/11	15 years, variable	7.00%*
St. Elizabeth's Hospital	Boston	F-1	12,000,000	06/30	12 years, variable	6.35%*
Smith College	Northampton	E	2,500,000	08/16	5 years, variable	7.15%*
The Harbor Schools	Newbury	H	1,896,565	05/01	20 years, fixed	8.18%
The Key Program	Framingham	H	1,250,586	05/01	20 years, fixed	8.04%
Waltham-Weston Hospital	Waltham	G-1	3,104,284	06/21	10 years, variable	7.65%*
Wayside Community Programs	Framingham	H	1,029,608	05/01	20 years, fixed	8.07%
Worcester Memorial Hospital	Worcester	G-1	5,350,000	05/16	10 years, variable	7.65%*
			\$ 161,698,985			

* Variable rate financing; rate cited is at closing date.

Funds Available Through Pool Programs

Both fixed- and variable-rate loans are available from several of HEFA's pooled financing programs. HEFA recently introduced its first "blind" fixed-rate pooled financing program. The term "blind" means that over \$20 million of this \$33.3 million bond issue is reserved for borrowers who have not yet applied for financing. Loan rates under this program average 6.5%. HEFA also has variable rate funds available through the recycling of previously issued programs. For more information, call Leslie Mulford or Cathy Thorn at (617) 737-8377. ■

Cohen

Continued from page 1

appointed by the Governor and who serve without compensation — are as follows: **Gregory P. Plunkett** (Chairman), President and CEO of First New England Securities Corp., a securities brokerage firm; **Robert R. Fanning, Jr.** (Vice Chairman), President and CEO of Beverly Hospital and its parent corporation, Northeast Health Systems, Inc., Chairman of the Massachusetts Hospital Association Board of Trustees; **John R. Smith** (Secretary), Financial Vice President and Treasurer of Boston College; **Prudence S. Crozier, Ph.D.**, economist and Trustee of Wellesley College and of Newton-Wellesley Hospital; **Catherine M. Dunham**, Director of the Governor's Office of Human Resources; **Robert E. Flynn, M.D.**, President of Caritas Christi, Secretary of Health Care Services for the Archdiocese of Boston; **Herman B. Leonard**, the Baker Professor of Public Sector Financial Management at Harvard University's John F. Kennedy School of Government; and **C. Vincent Vappi**, Chairman and CEO of Vappi & Company, Inc., general building contractors. ■

RECENT FINANCINGS

Nursing Home Acquisitions Financed

In May, HEFA provided \$3.6 million in long-term financing to Summerfield Nursing Homes, Inc., an affiliate of Holyoke Hospital, for the purchase of three nursing homes in western Massachusetts.

This important bond issue marks the first time a HEFA financing for a nursing home has been backed not by the affiliated hospital, but solely by the nursing home involved. The obligors in this break-through financing are the three acquired nursing homes: Summerfield Oak Manor in Holyoke, Summerfield Elms Manor in Chicopee, and Summerfield Pine Manor in Springfield.

This is yet another of the many ways in which HEFA strives to structure financings that are adapted to the individual and often unique needs of Massachusetts' diverse not-for-profit institutions. We are very pleased with the success of this, our second nursing home financing.

Cardinal Cushing Hospital Lowers Costs

Cardinal Cushing Hospital's first HEFA bond issue has enabled this Brockton hospital to refinance both capital leases and debt that had originally financed the construction, renovation, and expansion of the hospital's main building. In so doing, the hospital was able to lower its interest costs, extend the term of the debt, and convert some variable rate debt to a fixed interest rate. In addition, the hospital was reimbursed for certain internal advances it had made for the purchase of miscellaneous capital equipment.

A First for Massachusetts Colleges

Wellesley College recently became the first college in Massachusetts to take advantage of a new, innovative financing product introduced to not-for-profit organizations by HEFA. This new program enables

borrowers to issue long-term tax-exempt bonds at low, short-term variable interest rates — initially an impressive 6.6% in the case of Wellesley College. In addition, bond issuance costs are generally lower than other types of variable rate bond issues.

Developed by Goldman, Sachs & Company, the new product is called Period Auction Reset Securities, or PARS. This structure is unlike traditional variable rate demand bonds in that the interest rate is set periodically by means of a "dutch auction" technique. In addition, the college is not obligated to repurchase bonds offered for sale by an investor, thereby eliminating certain fees associated with conventional variable rate demand bonds. This allows Wellesley College to benefit from having long-term debt at low, short-term rates, with costs generally lower than other types of variable rate bond issues.

"The PARS financing structure gives Wellesley College the combined benefits of low-cost financing and flexibility to respond to future interest rate environments," commented Burton Sonenstein, Wellesley College's Vice President for Finance.

Berkshire Health Systems Expands Services

A \$45 million HEFA bond issue has allowed Berkshire Health Systems, which operates both Berkshire Medical Center in Pittsfield and Fairview Hospital in Great Barrington, to begin a major multi-faceted renovation, expansion and debt restructuring program.

Berkshire Health Systems President John C. Johnson noted that they were able to "take advantage of the currently favorable tax-exempt interest rates, which resulted in savings over our current debt cost and which will benefit the system and reduce the cost of health care over the life of the bonds."

Pooled Financing for Human Service Providers

In May, HEFA completed an important and innovative \$5.1 million financing program tailored to meet the unique needs of Massachusetts' not-for-profit community human service providers.

By pooling the capital needs of several of these organizations into one large, tax-exempt bond issue, HEFA enabled participants to take advantage of both an inexpensive loan program and the economies of scale of a major financing. Twenty-year loans were made available at fixed interest rates averaging an extremely low 8.16%.

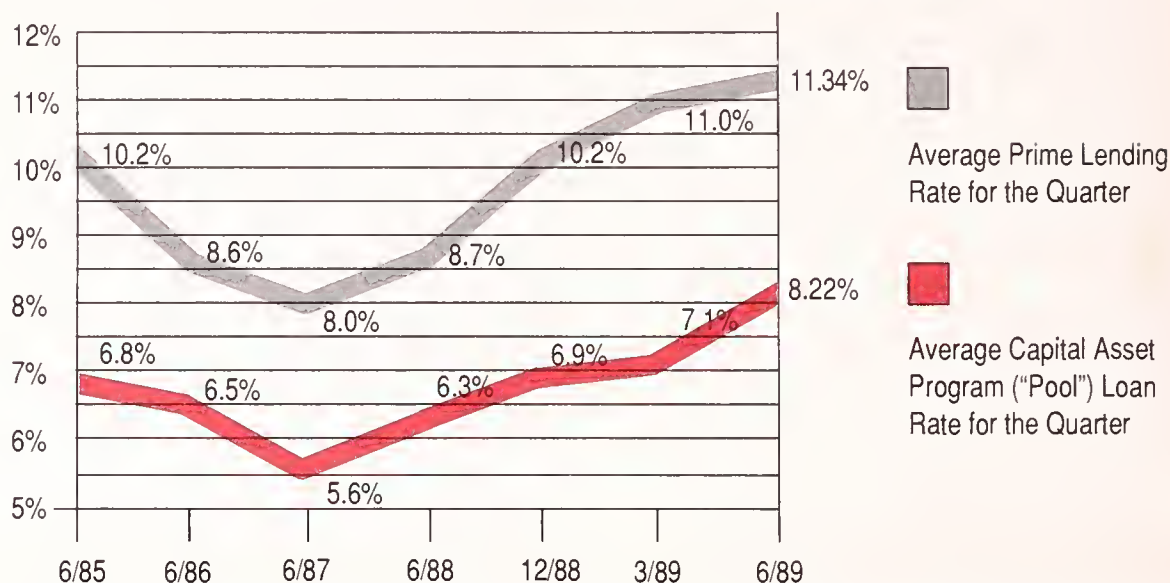
Furthermore, by pledging state contract revenues and mortgaging their residential property as security for their loans, borrowers were able to eliminate the need for more costly types of collateral, thereby conserving their scarce resources.

The participants in this financing included: Hampden County Association for the Retarded, Inc.; The Harbor Schools, Inc.; The Key Program, Inc.; and Wayside Community Programs, Inc.

If you are interested in learning more about HEFA's pooled financing programs, please call Leslie Mulford or Cathy Thorn at (617) 737-8377. ■

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Lower Capital Asset Program Rates



During the second quarter of 1989, there was a reversal of the upward trend in interest rates in the capital markets, allowing the loan rates for all capital asset programs to be substantially lowered in July.

The interest rates for most of HEFA's variable rate capital asset program loans are generally recalculated quarterly. The one exception is Series F, whose loan rate is reset every 35 days. The primary component of all loan rates is the historical and projected variable rate of interest paid on the tax-exempt bonds issued to make the loans. In addition, a small portion of the loan rate consists of the administrative expenses incurred as part of the capital asset program, including bond insurance, liquidity and other fees.

Capital Asset Program	Previous Rate	New Rate	Effective Date
Series A	8.00%	6.40%	7/1/89
Series B & C	8.55%	7.20%	7/3/89
Series D	9.35%	8.35%	7/3/89
Series E	9.95%	8.90%	7/3/89
Series F-1	6.35%*	6.10%*	7/18/89
Series F-2	6.60%*	6.20%*	7/25/89
Series G-1	7.65%**	7.35%**	7/3/89

* As provided in the bond documents, certain fees billed directly to the borrower serve to raise the effective rate by approximately 0.40%.

** As provided in the bond documents, certain fees billed directly to the borrower, combined with the rebate of excess payments made due to previous bond rate projections which were in excess of actual rates paid on bonds, affect the net loan rate. The current net loan rate is 6.5%.

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